



# WEEKLY ECONOMIC DIGEST

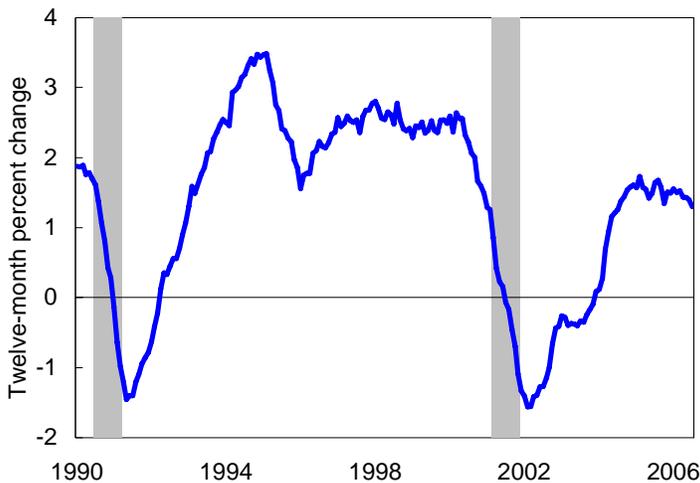


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

August 8, 2006

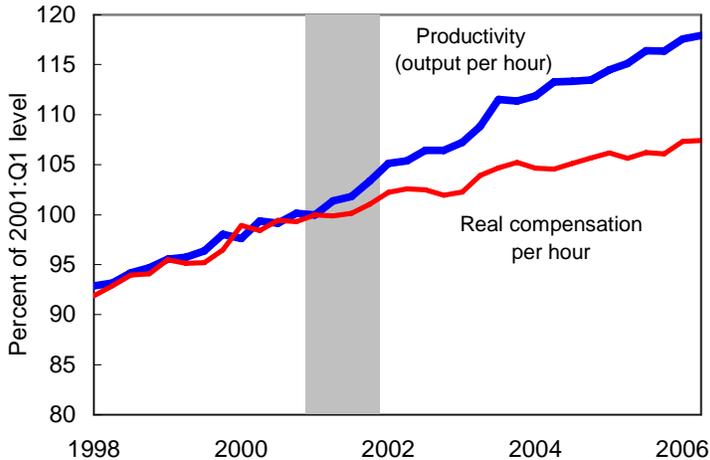
## Jobs Growth Slowed and Unemployment Rose in July

Change in Nonfarm Payroll Employment



Source: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Productivity and Real Compensation per Hour for Nonfarm Businesses



Source: JEC calculations based on data from the Bureau of Labor Statistics, U.S. Department of Labor and the National Bureau of Economic Research.

Note: The gray areas indicate periods of recession as defined by the National Bureau of Economic Research.

- **Payroll growth slowed in July.** Payroll employment at nonfarm establishments rose by 113,000 jobs last month, down from the 124,000 advance in June. Job gains have averaged nearly 145,000 per month over the past year, but just 112,000 per month over the past four months. Payroll employment has risen by 1.3 percent over the past year, well below the 12-month growth experienced in the economic expansion of the 1990s (see top chart).
- **Unemployment rose last month.** The civilian unemployment rate rose 0.2 percentage point to 4.8 percent in July. The percentage of the population either working or looking for a job was unchanged at 66.2 percent, but that is a full percentage point lower than the labor force participation rate when the recession started in March 2001. The percentage of the population that is employed fell by 0.1 percentage point last month to 63.0 percent. That is 1.3 percentage points below its level in March 2001.
- **Hourly wage gains are likely still lagging behind inflation despite July advance.** The average hourly earnings of production or nonsupervisory workers on private nonfarm payrolls grew by 0.4 percent last month, matching June's pace. Earnings were 3.8 percent above last year's level in July. However, when the July consumer price index becomes available it is likely to show that consumer prices rose even faster over the past year.
- **Productivity and compensation growth slowed in the second quarter.** Output per hour worked in private nonfarm establishments grew at a 1.1 percent annual rate in the second quarter, down from the 4.3 percent pace in the first quarter. Real (inflation-adjusted) hourly compensation (including wages and benefits) advanced at a scant 0.4 percent annual rate in the second quarter, following a 4.7 percent rise in the first quarter. Over the past five years, productivity has grown by a cumulative 17.9 percent, while real compensation has grown by only 7.4 percent.

The Economy at a Glance	Jul	Jun	May	Apr	2006 Qtr 2	2006 Qtr 1	2005 Qtr 4	2005 Qtr 3	2005	2004
<b>Economic Activity</b>										
Real GDP (% growth)	—	—	—	—	2.5	5.6	1.8	4.2	3.2	3.9
Industrial Production (% growth)*	n.a.	10.0	1.2	10.0	6.6	5.1	5.3	1.4	3.3	4.1
Capacity Utilization (level, %)*	n.a.	82.4	81.8	81.9	82.0	81.1	80.5	79.8	80.0	78.6
Civilian Unemployment Rate (level, %)	4.8	4.6	4.6	4.7	4.7	4.7	5.0	5.0	5.1	5.5
Housing Starts (thousands)*	n.a.	1850	1953	1832	1878	2123	2060	2101	2073	1950
Real Disposable Personal Income (% growth)	n.a.	4.8	0	1.1	1.0	1.7	5.5	-0.6	1.2	3.6
Retail Sales (% growth)*	n.a.	-1.0	1.6	8.3	3.7	13.4	1.9	8.5	7.2	6.2
Personal Saving Rate (level, %)	n.a.	-1.5	-1.6	-1.4	-1.5	-1.0	-0.3	-1.5	-0.4	2.0
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)*	n.a.	2.4	4.9	7.4	5.0	2.2	3.2	5.5	3.4	2.7
Core CPI-U Inflation (% growth)*	n.a.	3.7	3.7	3.7	3.5	2.4	2.4	1.6	2.2	1.8
Compensation per hour (% growth)	—	—	—	—	3.6	2.4	3.2	3.2	3.3	3.7
Output per hour (% growth)	—	—	—	—	1.1	4.3	-0.1	4.4	2.3	3.0
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	4.95	4.79	4.72	4.60	4.70	4.39	3.83	3.36	3.15	1.37
T-note Rate, 10-years (level, %)	5.09	5.11	5.11	4.99	5.07	4.57	4.49	4.21	4.29	4.27
Federal Funds Rate (level, %)	5.24	4.99	4.94	4.79	4.91	4.46	3.98	3.46	3.22	1.35
Dow Jones Industrial Avg (index level)	11033	10998	11334	11235	11189	10996	10616	10544	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

\* Subject to revision over the next two weeks.

### Upcoming Economic Releases:

- **U.S. International Trade in Goods and Services: June 2006** [Release: Thursday, August 10]
- **Advance Monthly Sales for Retail and Food Services: July 2006** [Release: Friday, August 11]
- **Manufacturing and Trade Inventories and Sales: June 2006** [Release: Friday, August 11]
- **Producer Price Indexes: July 2006** [Release: Tuesday, August 15]
- **New Residential Construction: July 2006** [Release: Wednesday, August 16]
- **Consumer Price Index: July 2006** [Release: Wednesday, August 16]
- **Industrial Production and Capacity Utilization: July 2006** [Release: Wednesday, August 16]